

McCone-Kaiser Relations Recalled

By Drew Pearson

One of the first problems facing the Senate Armed Services Committee will be to review the record laid down by its late, much-loved senior Republican, Styles Bridges of New Hampshire, regarding President Kennedy's new chief of Central Intelligence.

The new CIA chief, John A. Pearson McCone, was appointed by Mr. Kennedy just a few days after Congress adjourned last September and it is now up to the Senate Armed Services Committee to confirm him.

If Sen. Bridges' colleagues turn to their own subcommittee hearings of June 2, 1953, and thereafter, they will find some amazing testimony by and about the new CIA chief.

Amazing as it is, the testimony is not quite complete, because later testimony by McCone before the Joint Atomic Energy Committee, July 2, 1958, shows that he may have been guilty of a conflict of interest when as Under Secretary of the Air Force he awarded a Flying Boxcar contract to the Kaiser-Frazer Company for three times the price the Government was paying to the Fairchild Corporation.

One Republican, Rep. Alvin O'Konski of Wisconsin, charged his fellow Republican,

McCone, with being "merely on leave of absence from his position as president of the Bechtel-McCone Corp. . . . becomes Under Secretary of the Air Force and arranges a nice fat gift for Kaiser, and that is how Kaiser manages to continue to suck defense dollars while our boys in Korea die for lack of planes."

McCone denied the statement. However, he did not deny that the Bechtel family owned 4200 shares of Kaiser-Frazer common stock. He also had a hard time putting a good light on the highly unusual chain of facts which Sen. Bridges placed before the Senate Armed Services Subcommittee as to how Kaiser got the Flying Boxcar contract.

At that time, 1950, Henry J. Kaiser's attempt to rival other auto manufacturers with the "Henry J" small-sized car and other Kaiser-Frazer makes had been a flop. He had a heavy overhead, a factory at Willow Run, Mich., which was closing down, and a large supply of machinery on hand.

According to the testimony unearched by Sen. Bridges, Kaiser's close associate with whom he had been engaged in West Coast shipbuilding, John A. McCone, got him off the hook. McCone produced a quickie contract to manufacture the C-119 or Flying Boxcar.

The cost per plane as built by Kaiser was to be \$688,365, as compared with \$260,000 per plane as built by Fairchild in Hagerstown, Md. The Air

Force under McCone, however, took part of the contract away from Fairchild, despite the higher cost. McCone, trying to explain this to Sen. Bridges, said that the Defense Department wanted to develop secondary suppliers. He had to admit under cross-examination, however, that Secretary of Defense Marshall had issued the directive on "second suppliers" only after the Kaiser contract had been negotiated.

In the end Kaiser charged the Air Force not \$688,365 as estimated, but \$1,339,140 per boxcar. It even charged up to the Air Force \$78,000 for liquor, food, and the cost of a dedication party for its first C-119—though this was caught and disallowed by Air Force auditors.

Faster Than Fast

The amazing, high-speed negotiations began on Dec. 5, 1950, when Kaiser, hard-pressed from his unsuccessful auto venture, applied to the Reconstruction Finance Corporation for a \$25 million loan. He was told he could get it if he had a Government contract.

Later that same day, thanks to his old shipbuilding partnership, he had lunch with McCone, then Under Secretary of the Air Force in charge of procurement. Son Edgar Kaiser also was present, together with Lt. Gen. K. B. Wolfe, deputy chief of staff for materiel. At this luncheon, Senate hearings showed that the plan to build

C-119s in the Kaiser Willow Run plant was discussed.

On Dec. 6, one day later, the Kaisers appeared at the Fairchild plant in Hagerstown and demanded engineering data on the C-119 which Fairchild had developed and was then producing. Under an Air Force contract Fairchild was required to give the data to a competitor.

Nine days later, Dec. 15, the decision was reached to award the Flying Boxcar contract to Kaiser. No facilities or cost studies had been made and the Air Force had no idea what Kaiser was going to charge Uncle Sam for being bailed out at Willow Run.

All this caused Sen. Bridges to ask McCone:

"If the Air Force's records should indicate that the decision to award the contract for the C-119 to Kaiser-Frazer was reached on Dec. 15 and that the proposals were delivered by Kaiser-Frazer to the Air Materiel Command on Dec. 19, four days later, what would you say?"

"I would say that the action, though apparently fast, was proper under the sense of emergency that we were operating," replied McCone.

"It is even faster than fast, is it not?" asked Bridges.

"It is pretty fast, you bet," agreed McCone.

In all the testimony, however, McCone would not admit that he had any continuing financial relationship with Kaiser.

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